RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 29, 1991 LETTER 1070

"The consensus view is that the recession they failed to forecast is now almost over." -- Economist A. Gary Shilling.

"The good news is that there is just one cloud overhanging the economy. The bad news is that it's a thunderhead called debt." -- Economist Edward Hyman.

Russell Comments: (1) This is an overvalued market that doesn't want to go down. Furthermore, it seems that every time a trend (either up or down) gets started, it fizzles out. Friends of mine who trade stocks say it's one of the most frustrating markets they've ever had to deal with.

(2) Question: If a market won't go down, won't it head up? Answer: Good chance, but the problem is -- how far will an overvalued market climb -- and at what risk?

(3) The recession is starting to dig deep. People are hurting; they're losing their businesses and their jobs. Consequently, the operative word for most people is **income.** At this time, I feel that the most attractive income (along with safety) is in Treasury notes in maturities of 3-5 years.

THE PICTURE: The consensus opinion is that this recession is much like all the other post-war recessions -- just a case of when Mr. Greenspan and the Fed decide that the economy has "had enough." At that point the Fed simply brings down the rates, the banks and businesses then re-liquefy, and finally consumers do what they're supposed to do -- "shop 'til they drop." In the meantime, all we investors have to do is sit back and relax. Give the economy six months or so -- and the recession will be a footnote in American history.

Maybe it will work out that way, but I have my doubts (see later section entitled "Views"). At any rate, the public and the funds are now loaded with stocks, and they're ready for the market to boom as soon as the good news emerges -- the news of the recession's end.

As far as the stock market is concerned, it's been working essentially sideways since last February, so anyone and everyone who wanted to get aboard has had ample time to do so. Wall Street is positioned, cocked and ready for the economic turn to the upside -- therefore, let the fireworks begin.

Oh yes, in case you haven't taken note of what the Fed's been doing, believe me, they've been fighting the recession tooth and nail (even if they did start the fight a bit on the late side). In October the Fed cut Fed funds 1/4%. In November they cut Fed funds another 1/4%, and in December they gave Fed funds another 1/4% cut. Also in December, for the first time in seven years, the Fed cut reserve requirements for the banks. In early January, the Fed again cut Fed funds 1/4%. Also in February, the Fed cut the discount rate 1/2% to 6% (this was the second discount cut). Later in February, they again cut Fed funds, this time by a full 1/2% to 6.25%. In March they cut Fed funds again, bringing the funds rate down to 6%. In April, the Fed cut the discount rate a third time, a full 1/2% to 5.5%. In early-May the Fed cut the Fed funds another 1/4% -- to the current 5.75%.

Now I'd call that a concerted, all-out campaign to jump-start the economy, wouldn't you? But consider this: in the early 1930s the

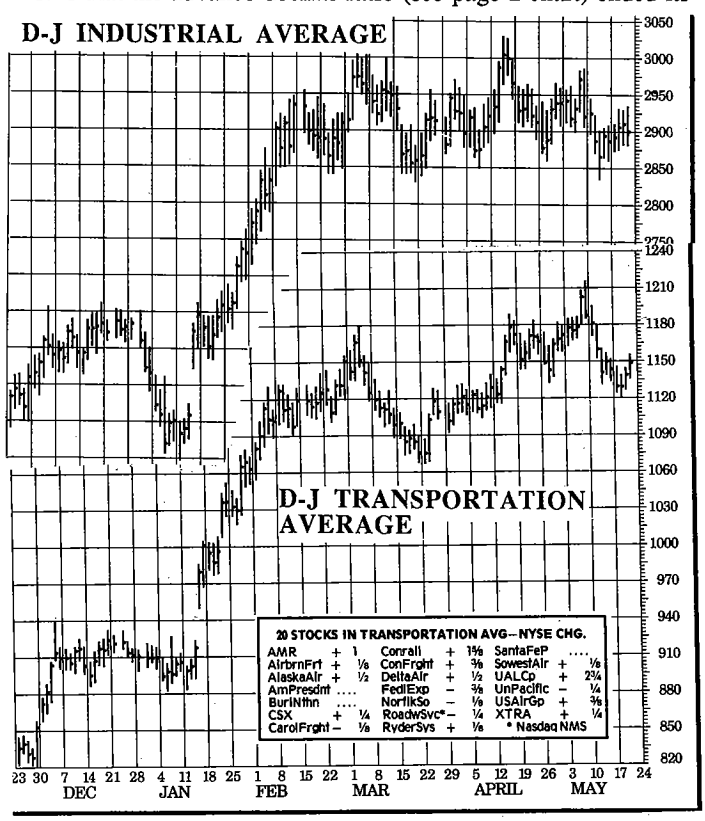
May 17 DJIA 2886.63; PTI 3276; A-D Ratio -11.86
May 23 DJIA 2900.04; PTI 3277; A-D Ratio -11.77
Dow Yield: 3.12%; Dow P/E: 19.2; DowPow: -34
Dow 200-day MA: 2690; Dow 30-day MA: 2918
Dow Book Value: 1276; PTI 89-day MA: 3220
Percentage of Undervalued Blue-chips: 12%

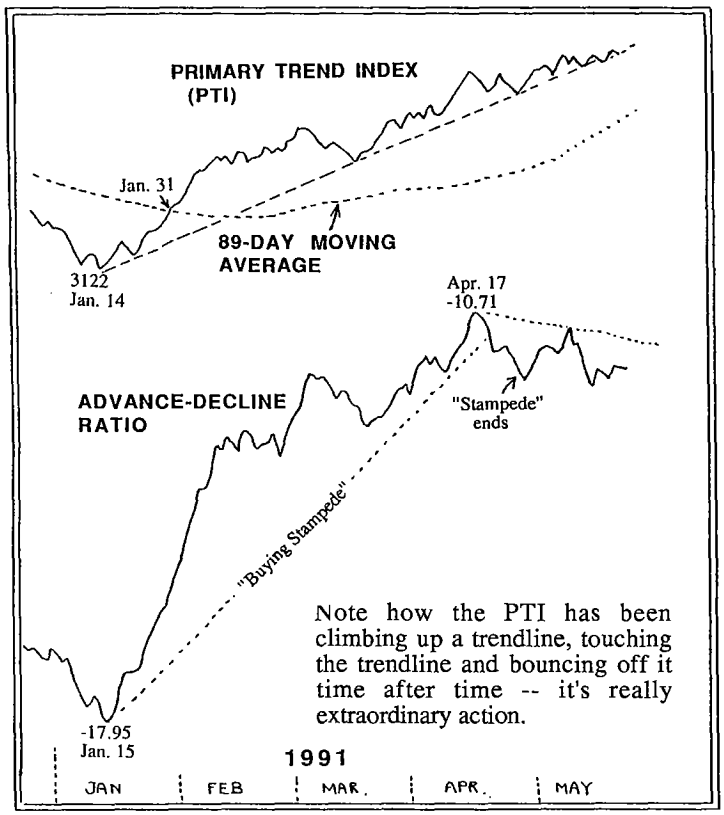
Fed lowered the discount rate ten (10) times -- from 5.5% to a minuscule 0.5%. But that nose-dive in the discount rate never made a dent in the gathering economic depression. Why? Because real income on the part of the American consumer was dropping faster than interest rates. The sad fact was that regardless of the level of interest rates and despite the Fed's desires, Americans just didn't have the money to spend.

In the meantime, if jaw-boning worked, the US would be in the midst of a boom. Almost weekly Budget Director Darman and Council of Economic Advisors chief Boskin announce that things are looking up. And on May 20, Fed Chairman Greenspan flabbergasted economists by stating that outside the auto industry "you have got pretty much of a stable economy, clearly not one that is deteriorating." Cynics took the Greenspan statement to mean that the Fed was not going to push interest rates down again soon.

THE MARKET: The D-J Averages remain locked in their trading ranges. On the high side we have the Dow peak of **3004.46** and the Transport high of **1202.57**. On the downside we have the March lows of **2855.45** and **1075.20.** Sooner or later, the two Averages will BOTH break out -- on the upside or the downside. Dow Theory says that we don't guess which way -- we wait and let the market tell us.

However, a few items have been added since the last Letter. The first is that the advance-decline ratio (see page 2 chart) ended its





"buying stampede" phase -- and has now formed a downward zig-zag by breaking below its April low. The A-D ratio has also violated a five-month rising trendline. This shows definite weakness on the part of breadth. It also tells me that even if the Dow were to rally to a new high above 3004.46, the A-D ratio would almost surely not confirm.

A second item is this: the latest tabulation by *Investment Quality Trends* of La Jolla shows that the Percentage of Undervalued Blue Chip Stocks (this is a figure carried on page 1 of every issue of *Dow Theory Letters*) has now dropped to an extremely low **12%.** This obviously places the market in a top area (see page 2 chart). Since the 1960s, the Undervalued Percentage has only been this low twice before -- once in early 1967, just as the bear market was getting underway, and again in August 1987, two months before the great October crash.

Can the Undervalued Percentage go still lower? Sure it can -- so at this point it's really a question of "how hot is hot." But any way you cut it, based on the current Undervalued Percentage, this market is overvalued and on thin ice. The ice can get even thinner, but that 12% figure tells me that this may be a good time to remember Russell's first rule of investing -- "Above all, don't lose money."

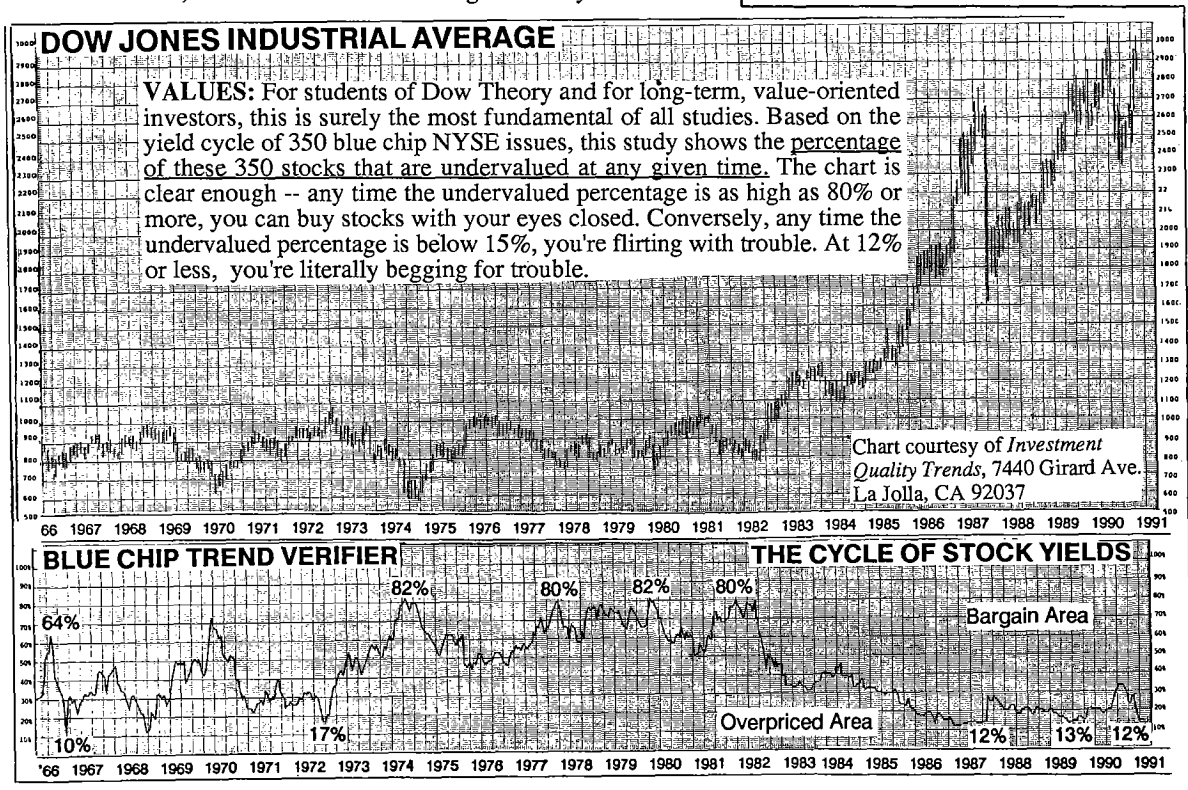
Distribution: This is from Marty Zweig's latest report (*Zweig Forecast*, PO Box 360, Bellmore, NY 11710). "The biggest headache for stocks right now seems to be the gargantuan amount of stock offerings. Over the past 10 weeks the volume of new offerings has soared to an all-time record of $17.8 billion, more than $5 billion above the prior record. As if this wasn't bad enough, the number of takeovers and share buy-backs for cash has dwindled. The shrinkage of equities which fueled the 1980s' bull market has suddenly reversed to net supply."

The NYSE announced that over the last 10 years stock ownership has increased 70%, and that 51.4 million individuals now own a piece of corporate America. This had me thinking. With the big rise in stock prices in 1991, it's surprising that consumers haven't been more optimistic (or at least surprising that they haven't been spending more). It makes me think that at this juncture consumers are influenced more by their debt and bills than they are by stock appreciation. It also had me wondering what would happen to consumer sentiment if stocks turn down.

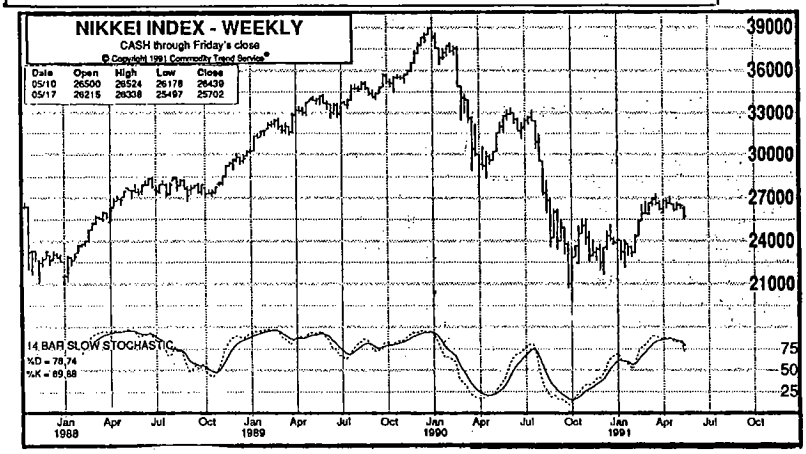
INVESTMENT POSITION: This might be a good time to include a passage from Berkshire Hathaway's latest annual report, written, of course, by the fabled Warren Buffet. "The most common cause of low prices is pessimism -- sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer."

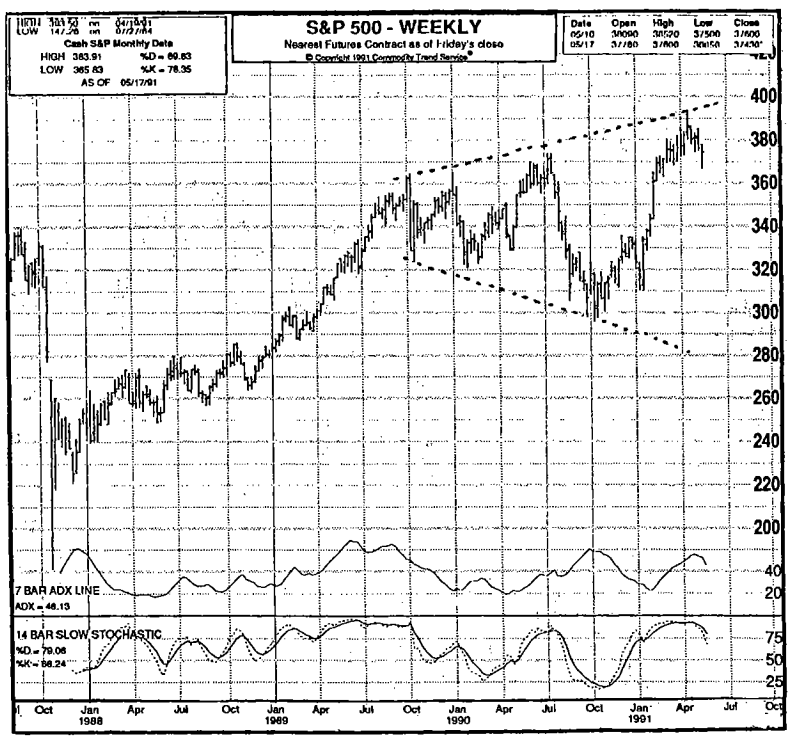
Wise words, and my comment is that anytime the Percentage of Undervalued Blue Chip stocks is at 12%, which it is now, that's a sign that there's one hell of a lot of optimism in the air. In fact, that 12% tells me that the market is at an extreme of optimism that has been seen only a few times in the past 30 years. So if "optimism is the enemy of the rational buyer," then I want all my subscribers to realize that the enemy is out there, and the enemy isn't a month away or six months away, he's here now.

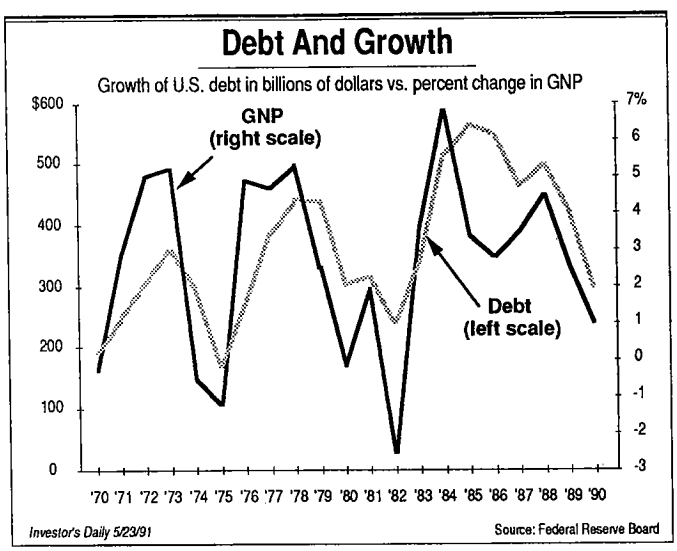
The accent is on income now, and many investors are turning to high-yield foreign government bonds such as Spanish (near 12%), German (near 9%), Danish (10%),


DOW JONES INDUSTRIAL AVERAGE
VALUES: For students of Dow Theory and for long-term, value-oriented investors, this is surely the most fundamental of all studies. Based on the yield cycle of 350 blue chip NYSE issues, this study shows the percentage of these 350 stocks that are undervalued at any given time. The chart is clear enough -- any time the undervalued percentage is as high as 80% or more, you can buy stocks with your eyes closed. Conversely, any time the undervalued percentage is below 15%, you're flirting with trouble. At 12% or less, you're literally begging for trouble.
Chart courtesy of *Investment Quality Trends*, 7440 Girard Ave. La Jolla, CA 92037
66 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991
BLUE CHIP TREND VERIFIER
THE CYCLE OF STOCK YIELDS
64%
82%
80%
82%
80%
Bargain Area
Overpriced Area
10%
17%
12%
13%
12%
'66 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991

New Zealand (five years near 11%) and even S. African (above 15%). The currency exchange rate is the usual speculative factor in foreign bonds, but my feeling is that long-term, the US dollar is not going to be a winner, since we're still generating deficits and debts with no end in sight.







CHARTS, COMMENTS: I write these Letters for a number of reasons. (1) I love studying the markets -- all of them -- from cotton to bonds, from gold to the Dow. I've always been intrigued by the mystery of the markets. Trying to unravel the secret of what the markets are saying is, to my mind, one of the most fascinating processes in the world. (2) I enjoy writing and telling my readers what I see. (3) I am fascinated with news. This may sound ridiculous, but when I wake up in the morning (usually around 3:30 AM) I can't wait to see the newspapers. Here again, I enjoy telling readers what I see, and what I think. (4) I write these Letters as a hobby. It's my work and my play. I never seriously think of retiring. Happily (or luckily) after 33 years of writing Dow Theory Letters, I have enough assets so that I don't have to work. So at this point I write these reports mainly because I enjoy the work.

So on to the work. One area which I've directed subscribers' attentions to is Japan's **Nikkei Index.** Ever since February the Nikkei has been bouncing off the 26,000 level. That level has represented powerful support. But on May 15 the Nikkei dropped over 300 points -- to close decisively below 26,000.

After its 1990 crash the Nikkei never recouped even half of its losses. Now the Nikkei is turning down again and breaking important support. During the whole post-war period, the Nikkei has led the Dow. It's been a powerhouse index for 40 years. And I'm wondering whether the Nikkei won't be the leader on the downside as well. If the Nikkei does lead the way down, it will be a decided negative for the entire global economic picture. [Nikkei chart courtesy of *Commodity Trend Service*, (800) 331-1069].

The people who trade commodity futures are a different breed from those who invest in stocks. Furthermore, the futures traders tend to use different indices and devices. Personally, I try to look at everything from fundamental valuations to Elliott to non-confirmations to trend breaks to stochastics to ADX lines.

In the last Letter I noted that the D-J Transportation Average has rallied to a new recovery high, unconfirmed by the Industrial Average. I stated that this non-confirmation could be an important danger signal. Following the non-confirmation, the market turned down. And it looks to me as though a top could be in place.

I want to illustrate how this market looks from the standpoint of a commodity trader. To do that I'm including this chart from *Commodity Trend Service* . The first observation is that the **S&P 500** looks a bit toppy, since it has made little or no progress since February. Next, I have drawn dotted lines which outline a 5-point reversal pattern known as a broadening pattern. Broadening patterns tend to be bearish in that they are evidence of a directionless market, an emotional market that's out-of-control and subject to swings of alternate bullishness and bearishness.

The ADX line (average directional movement line) on the chart signifies a change of direction when it climbs above 40 and then turns down. Note that this occurred in October of 1990 -- right at the low.

In March 1991, the ADX line climbed above 40 again. Then, a few weeks ago the ADX turned down, signifying an impending change in the stock market's direction -- this time to the downside.

At the bottom of the chart we have the stochastic lines. Anything above 75 signifies an overbought market. Note that around March the stochastics move into the 90 area, signifying a very overbought market. A few weeks ago the shorter term (dotted line) stochastic dropped below the longer-term (solid) line. This constituted a sell signal. From here we can expect the stochastic lines to work their way lower. The decline should ultimately end with the stochastics in oversold territory below 25.

Of course, it doesn't have to work exactly that way. In powerful markets the stochastics can remain in overbought territory (above 75) for months and the opposite can occur in extremely weak markets (where the stochastics will stay below 25 for extended periods of time).

Technically, however, this is a negative chart for the market, at least over the immediate future.

The bottom chart on page 3 is a most significant chart from *Investor's Daily*. It shows Debt (credit) which is the light line on the chart and GNP, the heavy line. Looking at this chart you can conclude that the US economy thrives on debt or that the US economy follows the trend of debt. Then today I received Ed Hyman's latest report. Says Ed, "In March Total Debt growth rose only 0.1% from February, or at an 1.2% annual rate, the lowest monthly gain in 30 years! In addition, over the past year Total Debt growth rose only 5.7%, its lowest growth rate in 24 years . . . In our view, Total Debt growth should remain low due to slow money growth and pressure from the regulators." Draw your own conclusions.

VIEWS: I read rafts of material each day, and I must say I'm seeing some fascinating opinions. I don't usually fill up this Letter with other people's views, but here are a few I can't resist.

This is the latest from my friend, Gary Shilling, who was predicting recession when almost every other economist was saying "no recession." Writes Shilling: "We see an easing of the recession in the second half of the year, with flat or very weak GNP growth. But it seems to us that this easing will represent only a respite, a brief intermission in the recession, rather than the beginning of a full-fledged and sustainable recovery. This intermission will not defuse the ticking debt time-bomb . . . Our forecast is therefore for a temporary rebound encompassing one or two quarters of flat GNP. The period of relative respite will be shorter, and embody less growth, than the abortive recovery that separated the two recessions of the early '80s. It will be followed by a second phase of declining GNP in the first half of next year, with recovery not getting fully underway until the fourth quarter of 1992." (*A. Gary Shilling & Co.*, 500 Morris Ave., Springfield, NY 07081).

This is a bit of Dr. Kurt Richebacher's latest report. He writes from Frankfurt, Germany, but subscriptions go to Canada: (416)957-0602. "What makes us more convinced than ever that the US is heading into its most serious post-war recession is the collapse in the credit and wide-money aggregates. The steep downtrend of M-4 growth -- virtually a collapse -- is absolutely unprecedented. The US is experiencing the sharpest drop-off in credit growth of the entire post-war period. Adjusting for inflation and allowing for the effects of compounding interest, recent credit figures clearly point to a credit contraction of unprecedented proportions . . . The reason most American economists are so complacent about this credit collapse is that they have never experienced one. The last time it happened was during the 1930s.

"A key contrast to past recessions is that the current downturn is being driven by large falls in construction and consumption. For the US there is only one historical precedent for a recession led by those two demand categories -- the economic downturn that started in 1929-30 . . . The most crucial part of the present monetary easing -- the banking system expanding its loans and investments -- is still grossly absent . . . The last hope for the recovery is the consumer, who is financially stressed as never before in the post-war period. To think that the American consumer can be the locomotive for the US economy's predicted recovery is outrightly absurd.

"Worst of all is the difference in the income performance between the 1981-82 recession and today. In 1981 disposable real personal income rose 2.5% complemented by a personal savings rate of 6.4%. In the past twelve months, by contrast, real incomes have fallen 1.4%, the severest yearly drop on record, whereas the personal savings rate has declined to a miserable 3.7%. More recently, real disposable income has virtually plunged, falling 3.5% in the fourth quarter of 1990 and a further 2.6% in the first quarter of this year.

Last we have the Financial Research Center's Money-Forecast Letter written by Adrian Van Eck, who tends to be very right although he often is right with a longish lead time [(508) 429-1920]. Usually optimistic Adrian shocked me a bit with his latest report. He has a red flag on the cover and he titles the report "Stand By For A Depression." Adrian compares current happenings with events of 1930. He writes, "1930 -- when the stock market predicted a business recovery that never arrived! Washington in its wisdom had raised taxes in early 1930 to close an expanding federal deficit. Even the price of postage stamps had been raised sharply. But for some mysterious reason the deficit grew bigger! So governments at every level cut back on spending in early 1930. Banks virtually stopped lending -- except to speculators on Wall Street. That lending seemed safe to bankers because of the 50% rally in stock prices! Meanwhile, the Federal Reserve Board was ruthlessly shrinking the nation's money supply. They did so for the best of reasons. The Fed thought it was their duty! After all, business activity and prices were falling. The Fed was afraid that if money was allowed to circulate freely it would lead to inflation. So they simply wiped out some of the money supply -- each day there was less money available than on the preceding day. It was all quite orderly. And so civilized! Of course, that made things worse. And the second stock market collapse (in mid-1930) was even more frightening than that of late-1929 . . . For half a century we have been told that America could never have another Depression -- because Washington won't allow one to happen. But just look at us. America is reliving every single facet of early 1930 even as we speak to you now!"

NOTES & QUOTES: From all accounts, it appears that Alan Greenspan will be reappointed as Chairman of the Federal Reserve. First, there's no one that anyone can think of to replace him (Jack Kemp? No way.). Second, Greenspan is Washington's ultimate whipping boy. You see, if anyone accuses Congress and the Administration of killing the economy with debts, higher taxes and deficits, the boys just point to "Greenspan and his damn tight money policy" as the root cause of the recession. Obviously, if they jettison Greenspan, they've eliminated their best excuse and decoy. Nah, they can't do that. So I figure Greenspan is a shoo-in for reappointment.

* *

To my mind, the biggest long-term menace in the world today is the out-of-control explosion in world population. Furthermore, the greatest growth in population is, and will, take place in the underdeveloped nations. By the year 2050 it is estimated that there will be 10 billion people on earth (in Christ's time there was an estimated 5-10 million). One of the main problems with the booming global population is pollution. Huge masses of the earth are now polluted, as are large bodies of water. Even areas of the ocean are now polluted, and the situation gets worse year by year. Furthermore, fluorocarbons are altering the earth's atmosphere as well as its climate. The only salvation -- birth control on a worldwide basis. If the population boom continues unchecked, you can bet that nature itself will solve the problem. The solution will be plagues, starvation, and new diseases. Furthermore, it has been proven that when organisms live too close together, aggression increases. And that means -- wars.

* *

Speaking of populations and problems, due mainly to the recession, the states and cities of the US are facing major budget problems and the results are (1) layoffs, (2) decreased services, (3) higher taxes, (4) increased crime. All this has given way to a new trend -- privatization. Cash-strapped cities and states are increasingly turning over their public service functions to private contractors, and I'm talking about jails, major construction projects, waste collection, security services, park maintenance, animal control, etc.

Ed Yardeni of *C.J. Lawrence* provides the following statistics. All manufacturers in the US employ 18.3 million people, while (get this) state and local governments employ an incredible 15.5 million. On top of that, the federal government employs 2.9

million. Since January 1989, 1.2 million manufacturing workers lost their jobs. But state and local governments are just beginning to cut back and fire -- and I mean just beginning.

During the fiscal crisis of the early 1980s states and locals cut employment by 437,000. The state and local crisis (in the Russell opinion) is far worse today. Therefore, expect huge cuts in state and local employment. This will impact particularly on retail sales. I look at it this way -- with declining asset prices, with higher taxes, with high levels of debt and with your neighbor out of a job, who s going to go on a spending spree? Note: in 1990 so far, 26 states have increased taxes.

* *

Speaking of state deficits, the Golden State's colors have turned blood red. Shrinking tax receipts and rising expenses have pushed California's sky-rocketing deficit to an incredible $15 billion. That's larger than the state budgets of 48 other states! So now it's just a question of which taxes will be raised and what cuts will be made where.

California has always received fat income from the defense industry. Those days are fading. Due to declining defense orders, California could lose 150,000 jobs by the middle of the next decade along with 225,000 jobs in related industries. Furthermore, the business climate in the Golden State is deteriorating. In 1986 California had 23% of the entire defense industry employment. That dropped to 18.6% in 1990.

* *

The deficit problems of many states and cities is beginning to upset the municipal bond market. So far the price structure of the broad muni market has held up. However, the $900 billion muni market is nervously watching the following entities: Massachusetts, New York State, New York City, Philadelphia, Detroit, Chicago and Washington DC. And these are just the biggies.

* *

The recession is beginning to cut into bone. Auto production for April-June will be at a 33-year low, and the word "depression" is beginning to appear in auto circles. Last week Tom Webb, chief economist for the National Automobile Dealers Association, said, "No matter how you adjust it, annualize it or seasonalize it, new vehicle sales are just plain rotten." According to economist Ed Hyman, "The $10 billion drop in auto credit is the biggest on record, and the record starts in 1943."

* *

Headlines of the week (just in case you don't read the papers):

Top New York Lawmakers Agree To Seek $1 Billion in New Taxes

By SAM HOWE VERHOVEK
Special to The New York Times

ALBANY, May 17 — Legislative leaders agreed today on $1 billion in new taxes as they struggled to fashion a budget now certain to be the latest in line.

Facing increasing urgency as New York City and other fiscally troubled municipalities press them to come up

$14.4-Billion Deficit in State Budget Reported

■ **Finances:** Recession and a huge demand for services are blamed for California's worsening fiscal condition.

By DOUGLAS P. SHUIT
TIMES STAFF WRITER

the Department of Finance.
Sen. Frank Hill of Whittier ...

* *

CEO Lee ("get me out of here") Iacocca says, "The US auto industry in the past 100 days would love to trade places with the banks, the S&Ls and the airlines" (meaning, of course, that the auto industry is doing even worse than they are). Iacocca doesn't want another Chrysler bailout from government, but he does want limits on Japanese imports. "The government doesn't do the competing, we do," he complains, "But they set the rules and right now the rules are favoring the guys from overseas." Adds Lee, Chrysler is spending $250 million a month on incentives to sell its cars and trucks. Iacocca wants to retire, but he has stated that he also wants to see Chrysler through the recession. Nevertheless, at the last corporate meeting Iacocca hinted that this might be his last year. "What if the recession lasts 10 years?" He complains "I can't wait that long." But let's not grieve for Lee; while Chrysler lost its shirt last year, Iacocca took a salary of over $4 million.

* *

Here's something most people don't think about. It is estimated that US citizens receive $680 billion a year in interest income. As interest rates ratchet down, income to US consumers also declines. Thus any benefits from declining interest rates may be more than offset by a loss of purchasing power on the part of the millions of Americans who hold interest-bearing instruments (and this includes the middle class who are normally large spenders).

* *

Real estate: Last week the Resolution Trust Corp. shocked the industry when it stated that it had $100 billion of real estate to sell and that individual items were going so slowly that it was going to sell large packages of real estate in exchange for a share in the revenue generated from such sales. Currently, 80% of its $100 billion in S&L assets are in hard-to-sell commercial real estate and loans.

* *

I've flown on the Concorde, and I can tell you there's nothing like it. NYC to Paris in three hours and twenty minutes -- it spoils you for any other way of getting there. But if you want to fly the Concorde, do it before 2005, because that's the year they are slated to retire the planes. But there's a new supersonic plane that British Aerospace is thinking about. It would be made to tap the Far East market. The plane would fly at mach 2.5 (two-and-a-half times the speed of sound). A passenger could fly from LA to Tokyo in four hours. The new plane would also be much larger than the 100 passenger Concorde, probably holding 250 to 350 people.

* *

Speaking of airlines, the airline industry (well represented in the D-J Transportation Average) is still doing poorly. Leader, AMR, reported rotten passenger traffic in April, up less than 4% (Wall Street was estimating up 7%). Now discount fares and price cuts are breaking out, and second quarter gas prices were up (every penny higher in gas equals an extra $100 million in operating costs for major airlines). So far, it looks as if 1991 will be only slightly better for the airlines than 1990. And 1990 was the worst year in airline history -- the industry lost $2 billion last year.

* *

About five years ago my wife, Faye, bought a life insurance policy on my life through EF Hutton. Since I had a mild heart attack in 1970, the company would only issue me $100,000 in life insurance. That proved to be a blessing. First my Hutton broker disappeared (we never saw him again). Then Hutton disappeared (merged into Shearson). Now the insurance company, First Capital, is in bankruptcy. Ah well, it's all just a sign of the times.

* *

Is Britain's royal family worth the money? In Britain, few ask -- they're taken for granted and they're loved. Nevertheless, the House of Windsor costs British taxpayers $101 million a year, most of which goes for staffing and maintaining five (count 'em, five) royal palaces. On top of that, the royals are fantastically wealthy. A *Fortune* magazine estimate puts their wealth (jewels, money, art, real estate) at $10.73 billion, and no income tax is paid on this vast wealth. And the "salaries"? Prince Andrew gets $441,000 a year, Princess Margaret gets $423,000, Princess Anne gets $441,000, Prince Edward $123,000, etc. But one bonus for the Brits -- the royals provide constant scandal and gossip for the huge-circulation tabloids.

* *

If you live in the South or west of the Mississippi, odds are you have a pistol or a shotgun in the house for self-defense (it is estimated that there are 200 million guns in US homes). And these days of lawlessness and dope-crazed violent criminals, who can blame you? But before you blow your next intruder away -- please buy a tape entitled, "Deadly Force, Firearms, Self Defense, the Law." This is an eye-opening tape featuring lawyers, crucial points of law, interviews with convicts, dramatizations of self-defense predicaments. If you have a gun, I advise in the strongest terms possible to buy this VCR. Item: almost all convicts interviewed stated that knowing a gun was in a home would deter them from

breaking into that home. Item: if you shoot an intruder and he has no criminal record and he does have relatives, the odds are high that you will be sued (regardless of whether you're right or wrong). For the tape, write to Anite Productions, PO Box 375, Pinole, CA 94565. As usual, I get no commission, no pay-off, nothing -- except satisfaction.

* *

There's a major row starting over the 1992 Olympics scheduled for Barcelona. Of the 60,000 tickets which will be available, only 6,000 will go to foreigners. On top of that, prices for hotel rooms are said to be exorbitant, some going for $750 a night. Furthermore, it is said that the Barcelona stadium is not up to the specifications that were promised. Watch for fireworks.

* *

I'll be speaking in Vancouver in August and some people are calling that city Kong-couver. Over the last seven years 110,000 Hong Kong immigrants have moved to Vancouver. Many of the wealthiest Chinese are moving to Vancouver, bringing in an average of $4 billion a year. Of the core city's population of 560,000, over 25% are now Chinese. One Chinese businessman, Li Ka-shing, now owns one-sixth of Vancouver's downtown property.

NOTICE: Computers come and computer go. Ours went last week, and with it went two weeks of address changes. So if you sent us an address change recently and nothing happened, please excuse us and please send us the change again. Many thanks.

On May 17 the *NY Times* asked a few prominent New Yorkers, "What Can Save the City?" Here's how CBS TV Network Correspondent William Geist answered: "Take the $50 billion we'll spend subduing the next 'Middle East madman' and give it to our 50,000 homeless people. Each would receive a ranch home ($250,000), store credit at Barney's ($10,000), college education ($80,000), two cars ($60,000), deluxe motor home ($45,000), country club membership ($25,000), plus golf lessons and a decent set of clubs ($5,000), speedboat ($25,000), and $500,000 in cash. Russell comment: I think he's telling us that we could all be rich if we'd only stop wasting billions on the military.

* *

The extent of Donald Trump's defaults is now clear, and it's a staggering total. Trump defaulted on the Taj Mahal to the tune of $725 million, on the Trump Shuttle for $263 million, on the Trump Regency for $85 million, on the Trump Castle for $63 million, on the Trump Plaza for $27 million, and on the Palm Beach Mar-a-Lago for $12 million. At this point he's mainly trying to hold on to control of his casinos and above all, he's trying to stay out of personal bankruptcy. What Trump has been praying for and betting on is an upturn in the economy which could conceivably turn his casinos profitable.

* *

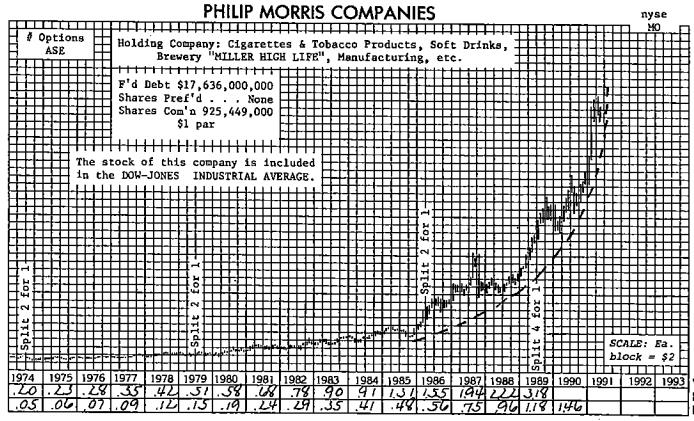
There are some that say that it isn't the size of the federal debt that's important, it's the growth and size relative to our GNP. The fact is that federal debt is now growing 50% faster than the GNP. In 1980 the debt was 34% of GNP. In 1990 the debt was 57% of GNP. This is called "eating yourself up alive."

* *

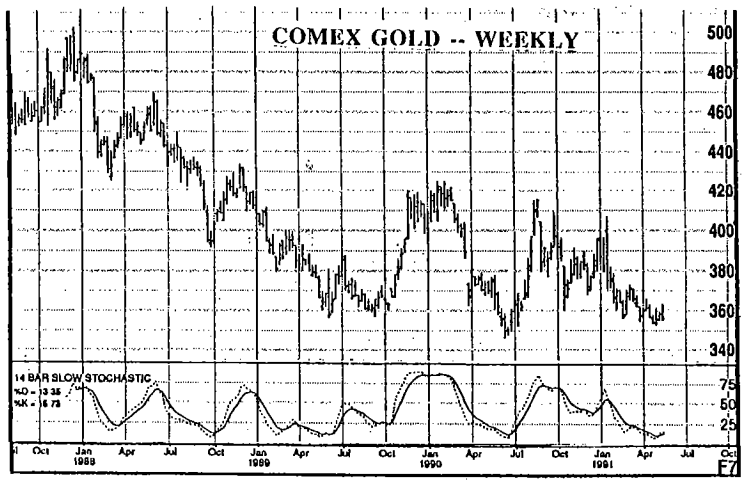
Here's a rather fascinating quote from my old friend Don Morris *Donald R. Morris Newsletter* (P.O. Box 19909, Houston, TX 77224): "Paradoxically, virtually all the magnificent high-tech weapons which performed so effectively in Desert Storm are now out of production, or will be shortly. Their replacements, even fewer in number, will cost far more than their predecessors, and the struggle to maintain an effective military posture will be every bit as hard as maintaining nuclear balance was."

* *

There's a theory -- it states that the bear market won't get going until Philip Morris heads south in earnest. MO has been a tiger for years, as you can see on this monthly chart. Beginning around 1985 the stock started going up in an exponential rise, and during 1990-91 the rise turned almost vertical. On May 17 MO finally broke important support at 65, but then it rallied again; let's watch it -- a decisive break below 64-65 could be significant for the whole market (chart courtesy of *Horsey,* Salisbury, MD).


PHILIP MORRIS COMPANIES
nyse
MO
Options
ASE
Holding Company: Cigarettes & Tobacco Products, Soft Drinks, Brewery "MILLER HIGH LIFE", Manufacturing, etc.
F'd Debt $17,636,000,000
Shares Pref'd . . . None
Shares Com'n 925,449,000
$1 par
The stock of this company is included in the DOW-JONES INDUSTRIAL AVERAGE.
Split 2 for 1
Split 2 for 1
Split 2 for 1
Split 4 for 1
SCALE: 8a. block = $2
80
70
60
50
40
30
20
10
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 YEAR
.20 .23 .28 .35 .42 .51 .58 .68 .78 .90 .97 1.31 1.55 1.94 2.22 3.14 EARN
.05 .06 .07 .09 .12 .15 .19 .24 .29 .35 .41 .44 .50 .75 .96 1.18 1.46 DIV

GOLD: Nothing much is happening these days with gold or silver. However, note that gold is holding at around the 355 level and silver is holding avove 4.00, this despite some negative figures in the Consumer and Producer Price Indices, indicating deflation (even if it's only temporary deflation). My opinion -- gold and



LATE NOTES: The Utility Average goes nowhere. The long bond (regardless of the Fed-manipulated decline in short rates) refuses to drop below a yield of 8%. Listen to the markets. They're telling us that the debt-logged US has only two choices, inflation or recession. Already, with the country mired in recession, the markets (bonds, utilities) are preparing for the next round of inflation.

The markets aren't stupid. Last week the House gave final approval to a 1992 federal budget containing a deficit of $279 billion. How will all these deficits be financed? They'll be financed the same way they always have - via inflation. Oh, you don't want inflation? OK, then take the consequences -- recession.

When you're up to your neck in debt and you're running new deficits, your options are limited, very limited. Cut back and the debt kills you. Push ahead, and inflation eats you alive.

So that's the big picture. The US is choking in ever-increasing deficits and debts, and the choices boil down to recession or inflation. The gray zone, the zone in-between inflation and recession, lasts only a matter of months. And the markets -- right now the markets are trying to figure which way to hedge their bets.

NEXT MAILING: June 12